

Message Text

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TO AMEMBASSY KHARTOUM PRIORITY

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FROM OPIC

E.O. 11652: N/A

TAGS: EINV

SUBJECT: RED SEA CEMENT COMPANY PROJECT

1. BEGIN UNCLASSIFIED. FOLLOWING REJECTION BY BUTTES GAS AND OIL (ONE OF U.S. SPONSORS) OF ALL THE CONDITIONS PRESENTED BY OPIC RELATIVE TO A PRICE INCREASE DEMANDED BY BUTTES FOR USED EQUIPMENT TO BE SOLD BY IT TO THE PROJECT, OPIC REGRETTABLY HAS TERMINATED ITS 15.175 MILLION FINANCING COMMITMENT TO RED SEA CEMENT AS OF 28 FEB.

2. EMBASSY FAMILIAR WITH HIGHLIGHTS OF RED SEA'S EFFORTS OVER PAST THREE YEARS TO IMPLEMENT MARSA ARAKYAI CEMENT PROJECT AND NOTABLY THE EFFORTS OF KH INTERNATIONAL'S JOHN KINARD AND FOR THE PAST YEAR OF LOCAL PARTNER FATH EL RAHMAN EL BASHIR. ALTHOUGH VERY SIGNIFICANT PROGRESS HAS BEEN MADE
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ON VARIOUS MATTERS HOLDING UP IMPLEMENTATION, A KEY UNRESOLVED ISSUE IN RECENT MONTHS HAS BEEN DEMAND BY BUTTES FOR SIGNIFICANTLY HIGHER PRICE FOR ITS USED EQUIPMENT COUPLED WITH A REDUCTION IN CERTAIN BANK DEBT TO BE GUARANTEED BY IT. FOLLOWING A LONDON MEETING WITH U.S. AND SUDAN PARTNERS IN EARLY FEB OPIC PRESENTED CONDITIONS AND PAYMENT TERMS UNDER WHICH IT WOULD BE PREPARED TO ALLOW AN INCREASED

PRICE TO BUTTES. IN LONDON MEETING AND SUBSEQUENTLY IT WAS MADE CLEAR THAT THIS MATTER HAD TO BE RESOLVED BY SCHEDULED EXPIRATION OF OPIC COMMITMENT ON 28 FEB. BASHIR LIKEWISE SET ONE MONTH DEADLINE. WHILE CERTAIN OTHER CONDITIONS OF OPIC'S COMMITMENT LETTER WERE NOT SATISFIED BY THAT DATE, THE REJECTION BY BUTTES OF ALL THE TERMS AND CONDITIONS RELATING TO THE EQUIPMENT SALE DICTATED OPIC'S CONCLUSION THAT THERE WAS NO BASIS FOR EXTENDING FURTHER ITS COMMITMENT ORIGINALLY AUTHORIZED BY ITS BOARD OF DIRECTORS IN OCTOBER 1975. OPIC HAS TELEXED BASHIR ITS DECISION.

3. THE RED SEA PROJECT WAS WELL CONCEIVED IN NUMEROUS RESPECTS AND OFFERED SIGNIFICANT DEVELOPMENTAL BENEFITS TO SUDAN. DUE TO THESE FACTORS AMONG OTHERS, OPIC DEVOTED SIGNIFICANT EFFORTS TO STRUCTURE AND SUPPORT THE PROJECT AND THEREFORE REGRETTED NECESSITY OF TERMINATING COMMITMENT PARTICULARLY FOLLOWING RECENT SUBSTANTIAL PROGRESS AND HEIGHTENED EXPECTATIONS OF GOS AND PRIVATE INVESTMENT COMMUNITY. HOWEVER, REFLECTING ITS POSITIVE VIEWS OF THE PROJECT CONCEPT, OPIC WILL BE ATTEMPTING TO ENCOURAGE THROUGH ITS FINANCIAL PARTICIPATION OTHER U.S. INVESTORS WHO MIGHT WISH TO DEVELOP A SIMILAR PROPOSAL IN CONCERT WITH BASHIR. END UNCLASSIFIED.

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4. BEGIN LIMITED OFFICIAL USE. RECOGNIZING THAT BUTTES WAS ASSUMING STANCE ON USED EQUIPMENT PRICING WHICH WOULD PROBABLY LEAD TO TERMINATION OF COMMITMENT AND AT SAME TIME RESTRICTING PROGRESS ON OTHER MATTERS THROUGH ITS CONTROL OF PURSESTRINGS, OPIC HAS HAD DISCUSSIONS WITH KAISER CEMENT WHICH HAD EXPRESSED GREAT INTEREST IN SUCH A SUDAN PROJECT. KAISER IS A MAJOR U.S. PRODUCER WITH SIGNIFICANT OVERSEAS OPERATING EXPERIENCE AND OPIC HAS HAD HIGHLY SATISFACTORY PAST DEALINGS WITH THEM. ANY ACTION ON EITHER SIDE WAS PUT OFF UNTIL A DECISION WAS REACHED IN THE RED SEA SITUATION. EXPECT KAISER WILL NOW BEGIN IN-DEPTH ANALYSIS IN WAKE OF RED SEA DEVELOPMENTS. BASHIR AWARE OF PAST DISCUSSIONS AND PRESUMABLY HE AND PRESENT SAUDI PARTNER WOULD BE INVOLVED IN ANY NEW VENTURE; VERY POSSIBLY KINARD ALSO WOULD BE INVOLVED IN SOME CAPACITY. DUE TO IMPROVED INVESTMENT CLIMATE, UTILIZATION OF NEW

EQUIPMENT AND STRONG CORE OF INVESTORS, FINANCING WOULD NOT BE THE PROBLEM IT HAS BEEN IN PAST SO THAT A NEW VENTURE COULD BE IMPLEMENTED FAIRLY READILY ONCE IN-DEPTH ANALYSIS AND INVESTMENT DECISION WERE MADE.

5. IN THEORY BUTTES COULD REVERSE ITS DECISION AND
TOGETHER WITH PARTNERS PRESS FORWARD TO RESOLVE OTHER
REMAINING MATTERS AND THEN PRESENT COMPLETED PROPOSAL TO
OPIC FOR CONSIDERATION ANEW. IN VIEW OF BUTTES ATTITUDE
IN RECENT MONTHS THIS APPEARS UNLIKELY BUT IT MUST BE
CONSIDERED AS A POTENTIAL FUTURE COMPLICATION. END
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